

CITY OF BALTIMORE

INTEGRATED PLANNING FINANCIAL PLAN

GUIDELINES AND POLICIES DRIVING FINANCIAL PLAN

The City of Baltimore maintains a comprehensive, forward-looking financial planning and rate model that incorporates a projection of the operating and capital expenditure requirements of the City versus a projection of anticipated revenue based on projected rates and customer demand. The primary goal of the financial plan is to determine rates that will generate a level of revenues that exceed estimated expenditures. Additionally, the City has legal requirements as well as internal objectives related to financial management that must be considered when developing rates to ensure the City can maintain access to credit markets for financing its capital program. The legal requirements, internal objectives, and guidelines used in conjunction with the Integrated planning process are detailed below.

1. The City has legal requirements as part of its Trust Agreement to maintain:
 - a. Operating reserves greater than 8% of its annual operation and maintenance budget
 - b. Debt service coverage ratio of 1.15x for its senior lien indebtedness
 - c. Debt service coverage ratio of 1.00x for total indebtedness
2. In order to maintain a financial position that allows the City access to credit markets, the City has internal financial objectives. These have been developed to be consistent with industry best practices and to address guidelines and recommendations from rating agencies.
 - a. Operating reserves greater than 25% of its annual operation and maintenance budget (90 days)
 - b. A rate stabilization fund greater than 10% of annual revenues
 - c. Debt service coverage ratio of 1.40x for its senior lien indebtedness
 - d. Debt service coverage ratio of 1.10x for total indebtedness
3. The following guidelines are used to develop a financial plan that maximizes the City's financial management.
 - a. Capital financing that creates a blend of cash-financed v. debt financed capital to meet coverage requirements and maintain equity in system assets.
 - b. Smooth annual rate increases (i.e. 9% annual increases is preferable to a 27% increase followed by 2 years of no increase)

Additional assumptions used to develop the forecast include:

1. The financial plan assumes no inflation in future years; all costs and revenues are presented in 2015 dollars.
2. The forecasted operating expenses are based on a preliminary FY 2016 budget.
3. The forecast of user charge revenue is based on the reported FY 2014 revenues from the financial system.
4. Future City revenues are reduced by 1% per year to account for declining per capita consumption.